



TOWN OF MOUNT CARMEL

Comptroller's Investigative Report January 31, 2017

Justin P. Wilson, Comptroller





**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF INVESTIGATION**

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January 31, 2017

Board of Mayor and Aldermen
Town of Mount Carmel
100 Main Street East
Mount Carmel, Tennessee 37645

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Town of Mount Carmel for the period July 1, 2015, through March 31, 2016, and the results are presented herein.

Our investigation revealed the following deficiencies:

- The board of mayor and aldermen were not paid as provided by Ordinance 188.
- The town had deficiencies in purchasing procedures.
- Official receipts were not issued for some collections, funds were not adequately secured, and some funds were not deposited in accordance with state law.
- The town had deficiencies related to street maintenance.

Findings and recommendations, as a result of our investigation, are presented in this report. We reviewed these findings and recommendations with management to provide an opportunity for their response. Also, these findings, recommendations, and management's responses (paraphrased in the report) have been reviewed with the district attorney general for the Third Judicial District.

Board of Mayor and Aldermen
Town of Mount Carmel, Tennessee
January 31, 2017

Copies of this report are being forwarded to Governor Bill Haslam, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in black ink, appearing to read "Josh R. White", with a stylized flourish at the end.

Comptroller of the Treasury

JPW/RAD

Town of Mount Carmel

BACKGROUND



The Town of Mount Carmel is a municipality located in Hawkins County in East Tennessee. The town has a population of approximately 5,429 and is governed by a board of mayor and aldermen.

INVESTIGATIVE RESULTS

FINDING 1 **THE BOARD OF MAYOR AND ALDERMEN WERE NOT PAID AS PROVIDED BY ORDINANCE 188**

We noted the following deficiencies related to payments made to the board of mayor and aldermen (BMA):

- A. During the period under examination, the mayor was overpaid \$2,850, and the aldermen were overpaid \$1,050 for routine meetings with attorneys, committees, and/or department officials. On January 20, 1998, the BMA approved Ordinance 188, which provides that the mayor shall be paid \$100 for attending each meeting of the BMA, whether a scheduled meeting or a special-called meeting, and each alderman shall be paid \$75 dollars for attending the BMA meetings. Ordinance 188 did not provide any payment for meetings unrelated to a scheduled meeting or special meeting of the BMA; however, the mayor was paid \$50, and the aldermen were paid \$25 to attend the other meetings.
- B. The mayor was overpaid \$1,500 for attending official BMA meetings. This resulted from the mayor being paid \$200 for each BMA meeting rather than the \$100 per meeting that was approved by Ordinance 188.
- C. From July 1, 2015, through March 31, 2016, aldermen were underpaid \$2,075 for attending official BMA meetings. Aldermen were paid \$50 to attend BMA meetings instead of \$75 per meeting approved in Ordinance 188.

The table below summarizes the above-noted deficiencies:

Official	Overpaid Meetings (A.)	Mayor Overpaid (B.)	Aldermen (Underpaid) (C.)	Total Overpaid (Underpaid)
Mayor	\$ 2,850	\$ 1,500	\$ 0	\$ 4,350
Vice-Mayor	25	0	(325)	(300)
Alderman 1	425	0	(400)	25
Alderman 2	225	0	(375)	(150)
Alderman 3	225	0	(375)	(150)
Alderman 4	25	0	(300)	(275)
Alderman 5	125	0	(300)	(175)
Total	<u>\$ 3,900</u>	<u>\$ 1,500</u>	<u>\$ (2,075)</u>	<u>\$ 3,325</u>

RECOMMENDATION

The board of mayor and aldermen should be paid in accordance with the amounts authorized by Ordinance 188. Overpayments should be returned to the Town of Mount Carmel, and the town should correct any underpayments.

MANAGEMENT'S RESPONSE—MAYOR CHRISTOPHER JONES

Board of mayor and alderman were being paid in good faith as directed by our previous town attorney Joe May. He prepared and the board passed Ordinance No. 328, a copy of which is enclosed. This Ordinance amended Title 1 "General Fund Administration," Chapter 1, "Board of Mayor and Aldermen," Section 104 "Compensation," of the Mount Carmel Municipal Code, 1-104 Compensation. In accordance with *Tenn. Code Anno.* §6-3-109, the compensation of the board of mayor and aldermen shall be established in the ordinance adopting the annual budget and capital program. The compensation of the mayor may not be diminished during the mayor's term of office.

Although this ordinance was passed June 26, 2007, the mayor's and aldermen's rate of pay was not changed until the FY 2010-2011 budget was prepared. It is now our understanding, following receiving your findings, that this was not acceptable. It is also our understanding that due to this, Ordinance No. 188 should have been the rates of pay for the board of mayor and aldermen. I have also enclosed a copy of that ordinance. As suggested by your office, Ordinance 188 will be amended. Our current city attorney will discuss the options the town has for any amounts that need to be reimbursed and/or paid. He will present us those options and the board of mayor and aldermen will vote on the direction to proceed in this matter. Once the amended ordinance is passed by the board, it will be followed as written. This finding will be corrected and shall not take place in the future.

MANAGEMENT’S RESPONSE—FORMER MAYOR LARRY FROST

As mayor of Mount Carmel, I was not responsible for any payments regarding meetings that were paid out by the CMFO Tammy Conner. It was my understanding that my payments were the same as the previous administration and that the CMFO was responsible for checking the payment amounts that had been previously approved.

MANAGEMENT’S RESPONSES – TAMMY CONNER, CMFO

I was hired to be the bookkeeper at the Town of Mount Carmel in 1996. The ordinance that changed the mayor and aldermen pay rates was passed by the board of mayor and aldermen in 1998, to go into effect in 2000. During that period, I did not attend board of mayor and aldermen meetings nor was I the payroll clerk. I was assigned to do payroll in 2002, at which time I continued to pay as the previous treasurer. I began attending the board of mayor and aldermen meetings in 2007. Therefore, I had no knowledge of the rate change. In 2012, I became a certified municipal finance officer for the town.

FINDING 2 THE TOWN HAD DEFICIENCIES IN PURCHASING PROCEDURES

Our examination revealed the following purchasing deficiencies, which are the result of a lack of management oversight.

- A. The town purchased two grinder pumps (\$3,175 each) totaling \$6,350 without obtaining competitive bids. The Town of Mount Carmel’s purchasing policy provides any purchase exceeding \$5,000 requires advertisement and competitive bids. As a result, the best and lowest price may not have been obtained for the purchase of these two pumps.
- B. The town made several purchases without obtaining three quotes. The Town of Mount Carmel’s purchasing policy requires that for small purchases of services, construction, or items of tangible personal property having a value between \$200 and \$5,000, the department head is required to contact at least three vendors for written or oral quotes before selecting a vendor.
- C. On November 20, 2015, the mayor ordered 250 Gelato Gift Sets (pens & key tags) totaling \$293.40 to be distributed at the town’s Christmas parade. Each item was imprinted with “Happy Holidays! Mount Carmel - Mayor Larry Frost.” We question whether this purchase benefited the citizens of the Town of Mount Carmel.

RECOMMENDATION

Purchases exceeding \$5,000 should be advertised and competitively bid, and three quotes should be obtained for purchases between \$200 and \$5,000 as required by the town’s purchasing policies. All disbursements should be made for the benefit of its citizens.

MANAGEMENT’S RESPONSE—MAYOR CHRISTOPHER JONES

These practices took place under the previous administration. The town’s purchasing policy was passed in 1999, and has not been reviewed since that time. It is currently under review, and the town plans to amend it by passing Resolution 543 in December 2016. In the future, the purchasing policy will be followed as to the amounts passed by the board of mayor and aldermen. Quotes and sealed bids will be done prior to any purchases.

The previous administration purchased the personalized ink pens and key tags, not the current administration. Staff acted appropriately by advising the vice mayor, city attorney, and police chief of the wrongdoing. Changing policy regarding these purchases will not allow this act to take place in the future.

MANAGEMENT’S RESPONSE—FORMER MAYOR LARRY FROST

The town did purchase two grinder pumps. After meeting with Fred Arnold, who at that time was in charge of the sewer plant, Mr. Arnold informed me that we had one grinder that was already down and being worked on and the second grinder had gone down. Due to both grinders being down, it was an emergency situation and there was no time to receive three bids. Without those grinders, the town’s waste plant could not operate properly.

INVESTIGATOR REBUTTAL

The grinder pumps in question failed periodically. Sound business practice dictates maintaining grinder pumps in inventory since this was a periodic occurrence. At a minimum, three verbal quotes should have been received over the phone.

FINDING 3 **OFFICIAL RECEIPTS WERE NOT ISSUED FOR SOME COLLECTIONS, FUNDS WERE NOT ADEQUATELY SECURED, AND SOME FUNDS WERE NOT DEPOSITED IN ACCORDANCE WITH STATE LAW**

Official receipts were not issued at the town’s library and animal shelter for some collections. Section 9-2-103, *Tennessee Code Annotated (TCA)*, requires official prenumbered receipts for all collections. In addition, collections were stored in an unsecured desk drawer, and some funds were not deposited within three days of collection as required by Section 5-8-207, *TCA*. Therefore, we were unable to determine if all funds received by the library and animal shelter were deposited with the town.

RECOMMENDATION

Official prenumbered receipts should be issued for all collections, funds should be stored in a secure location not accessible to all employees and customers, and funds should be deposited within three days of collection as required by state statute.

MANAGEMENT’S RESPONSE—MAYOR CHRISTOPHER JONES

This practice took place under the previous administration. This practice will not be allowed to continue. No funds or goods will be solicited for town-sponsored events unless a full record of said funds is documented per IRS Publication 1771. All board members, employees, and departments will be notified that all donations shall come to city hall where receipts or acknowledgements will be issued.

MANAGEMENT’S RESPONSE—FORMER MAYOR LARRY FROST

Police chief Jeff Jackson is responsible for any funds that were collected regarding the animal shelter. After receiving the funds, he was to give them to the CMFO Tammy Conner for deposit.

Marian Sandidge was in charge of any funds collected regarding the library. After receiving the funds, she was to give them to the CMFO Tammy Conner for deposit.

Further, I had no knowledge where the CMFO stored funds or when she deposited those funds.

MANAGEMENT’S RESPONSE – JEFF JACKSON, POLICE CHIEF

In reference to the audit finding of money being receipted out of animal control and Larry Frost’s statement that it was my responsibility, I must submit that upon Larry Frost assuming the office of mayor, he demoted me from police chief to patrolman. During this period, he separated the police, fire, and animal control departments (which all previously were combined under my responsibilities). He had the police chief and the fire chief under the responsibility of one alderman and the animal control department under another alderman. When he reinstated me as police chief, I took care of the police and fire and answered to Mayor Frost. Animal control still answered to the other alderman assigned to that responsibility. As police chief, I had some interaction with animal control in reference to certain calls and such, but not as to the day to day running of the department. I at no time picked up, transported, or handled any money from the animal control department to city hall or vice versa. At one point last year, I was told to start signing the animal control officer’s time card because it was not legal for the aldermen to do so. I started doing this and started interacting more with the animal control officer. I was not aware of any money being taken in at the animal shelter or receipted from there until this audit. Upon being made aware of this practice, it was halted immediately. I do not know exactly when this practice started but can attest it was not happening before Mr. Frost took office. It is now back the way it was before Mr. Frost took office and all money goes entirely through city hall and no money is handled by the animal control department.

MANAGEMENT'S RESPONSE – MARIAN SANDIDGE, CITY RECORDER

I am not a library employee, and do not receipt in money at the library. One of the library employees brings the money they collect to city hall on a weekly basis. The money is balanced to the generic library receipts and a Town of Mount Carmel prenumbered receipt is written with a copy being given to the library. The money is then deposited into the general fund.

FINDING 4 THE TOWN HAD DEFICIENCIES RELATED TO STREET MAINTENANCE

The Town of Mount Carmel had deficiencies related to street maintenance as noted below:

- A. The Town of Mount Carmel solicited bids for paving several streets, and two bids were received (\$168,502 and \$173,432). The town awarded the project to the vendor for \$168,502; however, the final project cost totaled \$185,429. The cost overruns totaled \$16,927 and related primarily to paving two additional streets (Wineger and Montgomery). The additional streets were not included in the original bid solicitation and materially altered the cost of the project without soliciting additional bids. The town did not prepare a change order as required by the terms of the contract for this additional work; instead, the work was documented via email. In addition, the Town of Mount Carmel and the paving company did not enter into a formal written contract signed by both parties specifying the terms and conditions of the agreement. The contract was only signed by the vendor and lacked sufficient details. Without a formal detailed written contract, the agreement is subject to different interpretations by the town and the paving company for the terms and conditions.
- B. The Town of Mount Carmel had two streets (Wineger and McGee) paved that were not included on the official town street list. The town's street list has not been updated since 2013.
- C. The Town of Mount Carmel used town employees and equipment to install tile on private property. The mayor advised us that this work was needed to eliminate a road hazard.

RECOMMENDATION

Street maintenance projects should be properly bid as provided by ordinance. All projects should be supported by a formal written contract that defines the terms and conditions of the agreement. Management should ensure that work is performed only on streets listed on the official town street list approved by the BMA. The town's street list should be updated on a regular basis by the BMA. Town personnel and equipment should not be used to perform projects on private property.

MANAGEMENT’S RESPONSE—MAYOR CHRISTOPHER JONES

This took place under the previous administration. The two additional streets were paved without prior approval of the board of mayor and alderman. The previous mayor, alone, made the decision to pave these streets, which was against town policy and practice. This will be corrected in the future by following policies and procedures.

After review of the town street lists, the current town street list will be corrected and brought before the board for approval by adding these two additional streets.

The use of town equipment and employees on private property to install drain tiles is improper. This was done under the direction of the previous mayor. Staff directed the mayor and documented that this was improper. This property was not only a private driveway, but it was also located outside the town limits. It was noted by the previous mayor as a “Road Hazard.” The previous mayor instructed town employees to use town equipment to replace the tile and repair the ditch line so no runoff could reach the roadway causing a motorist hazard. Additional yard work was also performed by town employees beautifying his yard and making it easier for him to mow. This is not a practice of the town. A memo will be sent to all departments stating that no town equipment or town personnel shall be used on private property or outside the town for individual use. Town employees will be instructed to report any illegal activities to the board of mayor and aldermen or the town attorney immediately.

MANAGEMENT’S RESPONSE—FORMER MAYOR LARRY FROST

(A) At a board of mayor and alderman meeting, the board voted to pave Green Acres Subdivision as long as the cost was to not exceed \$200,000.

(C) The tile on the property in question in this finding had already been worked on by the previous administration.

INVESTIGATOR’S REBUTTAL (A)

The board of mayor and alderman awarded the project to the vendor for \$168,502. There is no mention in the minutes to the board of mayor and alderman meetings that allow the cost not to exceed \$200,000.